STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. SPU-00-4 (SPU-98-8)

ORDER DOCKETING FILING, ESTABLISHING PROCEDURAL SCHEDULE, AND REQUIRING ADDITIONAL INFORMATION

(Issued April 27, 2000)

On March 13, 2000, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) a petition seeking approval of a transaction with Cordova Energy Company LLC (Cordova), an affiliate of MidAmerican. MidAmerican asks that it be allowed to enter into a purchase power contract for 250 MW from Cordova. In the merger proceeding involving CalEnergy Company, Inc., MidAmerican Energy Holdings Company, and MidAmerican Energy Company, identified as Docket No. SPU-98-8, MidAmerican and the other applicants committed that MidAmerican would not have any contracts with power plants built or acquired by affiliates without the consent of the Board.

In addition, because Cordova is an exempt wholesale generator, section 32(k) of the Public Utility Holding Company Act requires the Board to make certain determinations before the purchase power agreement can be effective. The Board must find that the agreement will benefit consumers, does not violate state law, does not provide any unfair competitive advantage, and is in the public interest.

On March 28, 2000, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to MidAmerican's petition. Consumer Advocate said discovery was ongoing and that a procedural schedule should be established.

The determinations the Board is required to make cannot be made based on the filings to date. Therefore, the Board will docket the filing as a formal contested case proceeding, identified as Docket No. SPU-00-4. A procedural schedule will also be established.

After its initial review of the filing, the Board has identified several areas where it has questions or requests for additional information. MidAmerican will be required to respond to the following questions and requests for information within 15 days from the date of this order.

1. With explicit reference to provisions of the proposed purchase power agreement with Cordova and any other germane agreements, identify, and briefly explain all the various types and sizes of penalties that Cordova would face for nonperformance under the purchase power agreement regarding its obligations to MidAmerican.

2. Section 14.2 of the purchase power agreement appears to state that neither party should be liable except for direct actual damages as the sole and exclusive remedy and adds that “the measure of damages be without regard to the cause,” including negligence, be it “active or passive.”

   a) Is this the same sort of limitation that is found in MidAmerican's purchase power agreements with nonaffiliated companies?

   b) Does this mean if Cordova chooses to sell to a higher bidder, it must pay only the direct actual damages? If so, how would these be calculated? What if MidAmerican could not find replacement power? How would actual damages be calculated?

3. Identify under what circumstances it could be cheaper for Cordova (and/or for the consolidated MidAmerican Energy Holding Company) to choose nonperformance and pay contract penalties.

4. To what extent is the proposed purchase power agreement between MidAmerican and Cordova different from a typical purchase power agreement between MidAmerican and a nonaffiliated provider?

a) Explain why these differences are warranted.

b) Discuss the similarities and differences between the two types (affiliated versus non-affiliated) of purchase power agreement specifically in regard to penalties, warranties, and damages associated with nonperformance of the provider of capacity and energy.

5. Witness Turnbull, on page 22 of his direct testimony, identifies the demand charge associated with the capacity of the project as $7.50 per kilowatt month. How does this compare with the demand charge associated with the capacity of other existing plants currently owned or used by MidAmerican?

6. Witness Turnbull, on page 23 of his direct testimony, also talks about the cost of energy being based upon a set cost per start-up and a set cost per hour of operation. What would this typically mean in terms of dollars and cents per kWh? Separating out the fuel charge, how does this compare to what MidAmerican typically incurs with its own plants?

7. Compare the costs for energy and capacity that MidAmerican will pay to Cordova to the costs for energy and capacity that MidAmerican pays each of its other existing purchase power agreements. Also compare any other costs that MidAmerican will pay to Cordova with the comparable costs paid to other existing purchase power agreements.

8. Page 26 of the purchase power agreement requires that the buyer pay the seller a bonus if the on peak availability factor exceeds 96.5 percent.

a) Explain the formula and each factor therein, for the calculation of this bonus.

b) Provide the rationale for this provision.

c) Is this provision a standard provision in purchase power agreements?

9. Explain why it is cheaper for MidAmerican's affiliate to build than for MidAmerican to build the same plant. Identify the various categories of expense and/or investment and provide for each category an estimate of the cost differential.

10 Midwest Power (predecessor of MidAmerican) in Docket No. NOI-93-1 (the Energy Policy Act of 1992) commented that "(t)he debt equivalence of a purchase power obligation reduces the utility's financial flexibility. This loss in flexibility is reflected as future increased financing costs to the utility and ultimately as increased costs to the ratepayers." To what extent will the proposed purchase power agreement with Cordova increase financing costs and rates for MidAmerican?

11. Provide the workpapers, including the tax rate and capital cost rates, that calculate the before and after tax weighted average cost of capital behind Exhibit 2.3. Also explain to what extent, if any, an "equity charge" or "implied capitalization structure" (as discussed by witness Turnbull in his direct testimony, page six, lines 20-24) is involved. If not involved, give an example of how the "equity charge" was used in the evaluation of purchase proposals?

12. Witness Turnbull, on page 24, lines 21-24, mentions a margin-sharing mechanism that provides an incentive for Cordova to operate and maintain the unit in a prudent manner. Explain how that mechanism works.

13. Witness Roberts in his direct testimony, page five, line ten, talks about comparing the purchase power agreement and the forecast of future market prices. Is that forecast contained in the filing? If so, where? If not, provide the information.

14. On page seven of witness Robert's testimony, it is stated that MidAmerican's power purchase agreements with Cordova and Nebraska Public Power District would expire in 2004. Does MidAmerican intend to renew the above contracts, replace the above contracts with other contracts, or construct new base load generation capacity? If MidAmerican plans to construct new generation capacity, explain the lead-time needed and type and size of generation planned?

15. Witness Roberts discusses MidAmerican's capacity needs in his testimony. Explain how MidAmerican's demand side management programs affect its capacity needs?

16. To what extent, if any, does this purchase power agreement give Cordova as the exempt wholesale generator any unfair competitive advantage by virtue of its affiliation with MidAmerican?

IT IS THEREFORE ORDERED:

1. The request for approval of an affiliate transaction filed by MidAmerican Energy Company on March 13, 2000, is docketed as a formal contested case proceeding, identified as Docket No. SPU-00-4.

2. The following procedural schedule is established:

a. Consumer Advocate and any intervenors shall file prepared direct testimony, with underlying workpapers and exhibits, on or before May 8, 2000.

b. MidAmerican shall file its rebuttal testimony, with underlying workpapers and exhibits, on or before May 15, 2000.

c. The parties shall file a joint statement of issues on or before May 18, 2000.

d. Any party that chooses to file a prehearing brief may do so on or before May 18, 2000.

e. A hearing shall be held beginning at 9 a.m. on June 6, 2000, for the purpose of receiving testimony and the cross-examination of all testimony. The hearing shall be held in the Iowa Utilities Board's Hearing Room, 350 Maple Street, Des Moines, Iowa. The parties shall appear one-half hour prior to the time of the hearing for the purpose of marking exhibits. Persons with disabilities requiring assistive services or devices to observe or participate should contact the Utilities Board at (515) 281-5256 in advance of the scheduled date to request that appropriate arrangements be made.

f. All parties may file simultaneous briefs on or before June 13, 2000.

3. In the absence of objection, all underlying workpapers shall become a part of the evidentiary record of these proceedings at the time the related testimony and exhibits are entered into the record.

4. In the absence of objection, all data requests and responses referred to in oral testimony or on cross-examination which have not been previously filed shall become a part of the evidentiary record of these proceedings. The party making reference to the data request shall file an original and six copies of the data request and response with the Board at the earliest possible time.

5. In the absence of objection, when the Board has called for further evidence on any issue and the evidence is filed after the close of the hearing, the evidentiary record will be reopened and the evidence will become part of the record five days after the evidence is filed with the Board. All evidence filed pursuant to this paragraph shall be filed no later than seven days after the close of the hearing in this proceeding.

6. MidAmerican shall file the additional information identified in this order within 15 days from the date of this order.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Raymond K. Vawter, Jr.
Executive Secretary

/s/ Diane Munns

Dated at Des Moines, Iowa, this 27th day of April, 2000.